# Amendments to ASPE 3400 Revenue

March 2021

Includes amendments effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

## PURPOSE AND SCOPE

The amendments to Section 3400 provide additional guidance on the following topics:

- Percentage of completion method.
- Multiple-element arrangements.
- Reporting revenue gross or net.
- Bill and hold arrangements, and
- Upfront non-refundable fees/ payments.

With limited exceptions, these amendments are to be applied retrospectively in the year of adoption.

## MULTIPLE-ELEMENT ARRANGEMENTS

Consideration is allocated at the inception of the arrangement to all deliverables on a relative stand-alone selling price basis. The objective here is to allocate the consideration to each deliverable in an amount that depicts the amount of consideration to which the enterprise is expected to be entitled in exchange for the deliverables. The stand-alone selling price is the price at which an enterprise would sell a promised good or service separately to a customer.

If a stand-alone selling price is not directly observable, an enterprise estimates the stand-alone selling price. Examples of estimation methods include:

- Adjusted market assessment approach
- Expected cost plus margin

## PERCENTAGE OF COMPLETION METHOD

Under the percentage of completion method, revenue is recognized based on the amount of work accomplished. The amount of work accomplished may be determined in a variety of ways depending on the nature of the contract.

### Input and output measures

- Input measures are made in terms of efforts devoted to a contract. They measure the degree of completion indirectly. Examples include labour hours, labour dollars, machine hours, or material quantities.
- Output measures are made in terms of results achieved. They measure results directly. Examples include units produced, units delivered, and contract milestones.

**Revised estimates** - Revisions in revenue, cost, and profit estimates or in measurements of the degree of completion are changes in accounting estimates.

### Computation of income earned

The portion of total revenue earned, or the total amount of gross profit earned to date is determined by the measurement of the degree of completion of the contract. The computation of income earned for a period involves a determination of the portion of total estimated contract revenue that has been earned to date (earned revenue) and the portion of total estimated contract cost related to that revenue (cost of earned revenue).

**Contract costs** are costs that relate directly to the specific contract, are attributable to contract activity, or other costs that are specifically chargeable to the customer.

Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a contract. These include general administration costs*, selling costs, research, and development*, and amortization of idle plant and equipment that is not used in a particular contract.

*When reimbursement is not specified in the contract.

When it is probable that total contract costs will exceed total contract revenue, the entire expected loss is recognized as an expense immediately.

## UPFRONT NON-REFUNDABLE FEES OR PAYMENTS

Enterprises may negotiate arrangements in which they may receive upfront non-refundable fees or payments upon entering into arrangements or on certain specified dates. Revenue is deferred when the upfront fee is in exchange for products delivered or services performed that have no utility to the buyer separate and independent of the enterprise's performance of the other elements of the arrangement.

Upfront fees and the continuing performance obligation related to the services to be provided or products to be delivered are assessed as an integrated package. These upfront fees, even if non-refundable, are earned as the products and/or services are delivered and/or performed and should be deferred and recognized systematically over the periods that the fees are earned.

## REPORTING REVENUE GROSS OR NET

To assess whether revenue should be reported gross or net, an enterprise considers whether it acts as principal or agent in the transaction, takes title to the products, and has risks and rewards of ownership, such as the risk of loss for collection, delivery or returns.

### Indicators of gross

- Has the primary obligation to the customer.
- Has general inventory risk.
- Has latitude in establishing price.
- Has credit risk.
- The enterprise changes the product or performs part of the service.
- Has discretion in supplier selection.
- Involvement in the determination of product or service specifications.
- Has Physical loss inventory risk (after customer order or during shipping).

### Indicators of net

- Supplier has the primary obligation to the customer.
- Amount earned is fixed supplier has the credit risk.

## BILL AND HOLD ARRANGEMENTS

A product is usually required to be delivered before revenue can be recognized. However, if ALL of the following criteria are met, revenue can be recognized when deliver has not occurred (a bill and hold arrangement):

- The risks of ownership must have passed to the buyer.
- The customer must have made a fixed commitment to purchase the goods.
- The buyer, not the seller, must request that the transaction be on a bill and hold basis, and the buyer must have a substantial business purpose for ordering the goods on a bill and hold basis.
- There must be a schedule for delivery of the goods that is reasonable and consistent with the buyer's business purpose.
- The seller must not have retained any specific performance obligations such that the earning process is not complete.
- The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders, and
- The product must be complete and ready for shipment.

### Other factors to consider

- The date by which the seller expects payment, and whether the seller has modified its normal billing and credit terms for this buyer.
- The seller's past experiences with and pattern of bill and hold transactions.
- Whether the buyer has the expected risk of loss in the event of a decline in the market value of the goods.
- Whether the seller's custodial risks are insurable and insured, and
- Whether there are any exceptions to the buyer's commitment to accept and pay for the goods.